



RESEARCH REPORT

Catalog number	99-001
Date:	January 19, 1999
Subject:	Long-term Funding of Jail and Juvenile Detention Operations
To:	Board of Supervisors
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Issue

How will Maricopa County absorb the projected costs of operating the new jail and juvenile detention facilities upon expiration of the recently-approved Jail Excise Tax?

Executive Summary

OMB, in consultation with Elliott D. Pollack, has updated the financial forecast. The forecast is based on the following assumptions:

- No new legislative changes in revenues or mandates.*
- The combined property tax is maintained at the current \$1.6475.*
- The primary tax rate increases as Debt Service is reduced and eventually eliminated in FY 2004, and the Flood Control District levy is held flat at \$45 million. Neither forecast scenario includes additional debt service.*
- Staffing growth is forecasted at 2% per year; salary increases are forecasted at 1.5%, assuming that costs will be absorbed through staff turnover.*
- The impact of the new ALTCS funding formula is included.*
- The forecast does not include a subsidy for the Maricopa Integrated Health System.*

The forecast indicates that Maricopa County has the opportunity to absorb operating costs of planned new jail and juvenile detention facilities in the General Fund when the sales tax expires. Nonetheless, there is a significant risk of a deficit. The risk of the deficit could be avoided through taking prudent steps, beginning with the FY 1999-00 budget.

OMB recommends the following:

- 1. Schedule construction and opening of facilities so that they can be operated as soon as possible with existing resources.*
- 2. As much as possible, jail tax revenue should be used solely for construction-related and other major one-time expenditures.*

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3. *Current jail and juvenile detention operating costs should be held to a minimum, and not exceed the required Maintenance of Effort.*
4. *New facility operating costs should be funded as much as possible by General Fund allocations above and beyond the required Maintenance of Effort.*
5. *Other operating expenditures, including alternative jail population reduction programs should be given priority consideration for funding within the General Fund.*
6. *Lobby to eliminate mandated expenditures in order to offset the operational cost of the new detention facilities.*
7. *If all else fails, pursue Legislative authority for new or expanded revenues.*

Background

From the beginning, the primary challenge facing Maricopa County has been to secure funding to *operate* new jail and juvenile detention facilities. While the County could legally have sought voter approval for a bond issue to finance construction, the extensive operating costs associated with new facilities could not be absorbed within projected revenue from existing sources. Identifying funding for both construction and operational costs would be funded was therefore one of the principal issues addressed by the Citizens' Advisory Committee on Jail Planning (CAC).

The Committee ultimately recommended levying a one-third cent sales tax that was to have been an ongoing source of revenue to build and operate new jail and juvenile detention facilities. As recommended by the CAC, the tax would have served as a relatively permanent source of funding for the operating costs of the new facilities, as well as the ongoing costs of recommended programs to reduce jail/juvenile detention population growth. The County would have had available pay-as-you-go funding for all three recommended phases of construction.

The CAC recommendation was not fully approved by the Legislature. The tax authorized by the Legislature and subsequently approved by the voters is for only one-fifth of a cent, and is limited to nine years or \$900 million. The approved tax covers only the first two phases of construction, and does not provide a permanent source of funding for any operating costs. The tax will provide short-term funding for the large incremental increases in operating costs as facilities open, but as things stand the full increases in operating costs will have to be absorbed by the General Fund within ten years. Maricopa County must therefore plan and take steps in the short run to address a potential long-run problem.

Discussion

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The Office of Management and Budget (OMB) has recently completed its update of the County financial forecast. The overall forecast is based on econometric forecasts of major revenues and demographic/economic cost drivers developed for Maricopa County by Elliot D. Pollack and Company. Pollack provides forecast information in both "high" and "low" scenarios. OMB combines this information with budgetary assumptions based on mandates, Board policy, and fiscal standards to develop a forecast of the budget for the General Fund and other funds that impact the General Fund.

The primary focus of the latest forecast has been the impact of the jail and juvenile detention program and sales tax. Along with major changes in the structure of the budget, the forecast had to be extended out from five to fifteen years in order to assess the impact of the expiration of the jail tax. Unfortunately, extending the time-horizon of the forecast to 15 years reduces the precision of the forecast and increases "forecast risk".

The budgetary assumptions used in the forecast include the following:

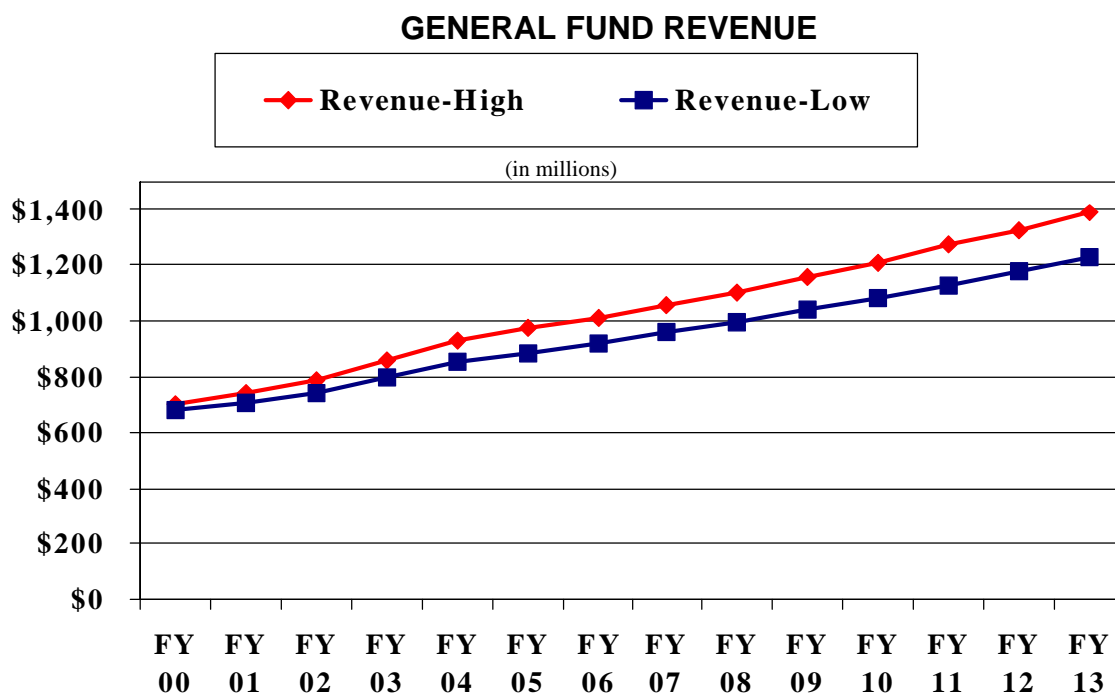
- No new legislative changes in revenues or mandates.
- The combined property tax rate for the General Fund, Debt Service, Library District and Flood Control District is maintained at the current \$1.6475.
- Within the \$1.6475 tax rate, the primary rate is increased as the Debt Service rate is reduced and eventually eliminated upon retirement of all outstanding County bonds in FY 2004, and as the present amount of the Flood Control District levy is maintained; the Library District rate is assumed to remain at \$.0421. Neither forecast scenario includes additional debt service.
- Personnel expenditures are forecasted with modest increases in both salary and staffing levels, consistent with inflation and population growth. Staffing growth is forecasted at 2% per year, while salary increases are anticipated to require a net 1.5% increase in budgeted salaries. The forecast assumes that a significant portion of the cost of salary increases will be absorbed through staff turnover.
- The impact of the ALTCS new funding formula is reflected in the forecast.
- The forecast does not include a subsidy for the Maricopa Integrated Health System.

The High and Low forecast scenarios produce fiscal outcomes that diverge with each succeeding year. In the High scenario, the General Fund can absorb the full jail and juvenile detention operating costs with a net surplus that grows each year thereafter, while in the Low scenario full operating costs cannot be absorbed and deficits increase each year.

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The major conclusions of the forecast are as follows:

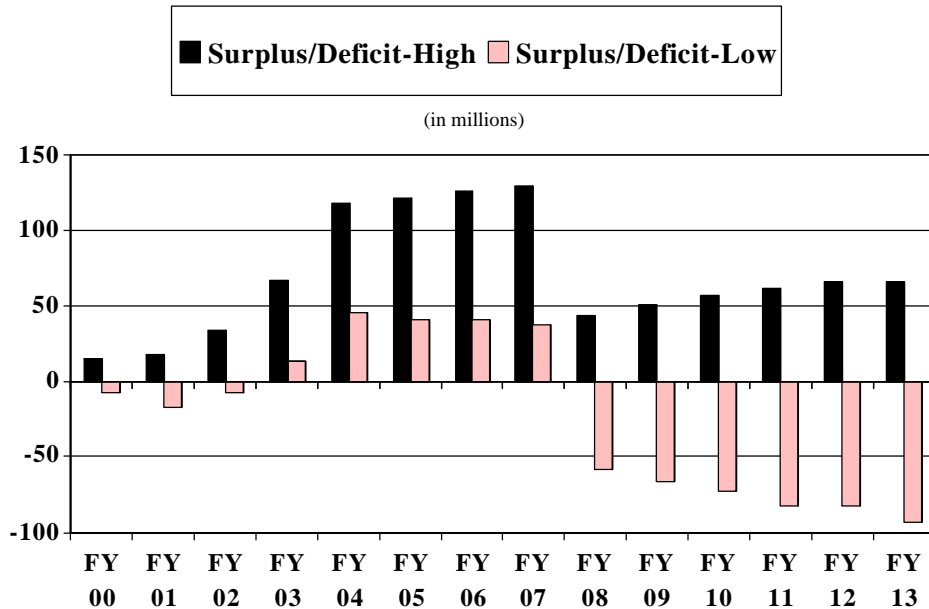
1. **Maricopa County faces significant risk of a structural deficit in the General Fund upon expiration of the jail and juvenile detention sales tax.** In the High forecast scenario, *operating surpluses start at \$43.9 million in FY 2008, and increase annually thereafter.* In the Low scenario, *operating deficits start at \$58.9 million in FY 2008, and increase annually thereafter.*



2. **There is a risk that if Maricopa County incurred a deficit, the County may not be able to absorb it within existing resources.** Both High and Low forecasts assume that the primary property tax rate increases to its highest potential level within the overall rate of \$1.6475. A change in this assumption would reduce or eliminate the deficit in the High scenario and worsen the deficit in the Low scenario.
3. **In the Low scenario, Maricopa County could not make up the entire forecasted deficit by increasing property tax rates because of the constitutional levy limit.** The Low scenario projects the primary levy \$49.1 million less than the estimated maximum, while the projected deficit is \$58.9 million.

GENERAL FUND OPERATING SURPLUS/DEFICIT

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In summary, Maricopa County *has the opportunity to be able to absorb operating costs* of planned new jail and juvenile detention facilities in the General Fund when the sales tax expires. Nonetheless, *there is a significant risk of a deficit*. The risk of the deficit could be avoided through taking prudent steps, beginning with the FY 1999-00 budget.

There are three general strategies that could be followed individually, or in combination with each other to avoid future operating deficits:

- Carefully schedule opening of facilities so that operating costs can be absorbed within anticipated General Fund operating revenues. Operating costs for new facilities could be absorbed in the General Fund as much as possible, only using sales tax proceeds to cover large short-term increases when it is reasonably certain that General Fund revenues will grow enough to absorb costs within several years.
- Control growth in expenditures, both in the detention programs and in other areas. Starting this fiscal year, budgetary allocations can be held to minimal growth in order to reserve budget capacity for anticipated future jail and juvenile detention operating costs. As much as possible, jail tax proceeds could be directed to non-recurring expenditures in order to avoid building reliance on the tax. Legislative relief from mandated expenditures in other areas, particularly health care, could also provide additional budgetary capacity to absorb operating costs.
- Obtain a new source of operating revenue. Options include extension of the jail tax, or legislative authority to levy a general-purpose sales tax. Diversifying the County's sources of general revenue would allow reducing our reliance on property taxes.

Recommendations

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OMB recommends the following:

1. Complete the architectural design for all of the Phase I and II facilities in the master plan, but *schedule construction and opening of facilities so that they can be operated as soon as possible with existing resources.*
2. As much as possible, *jail tax revenue should be used solely for construction-related and other major one-time expenditures.* Short-term reliance on the Jail Tax to support operating expenditures will make it more difficult to absorb these costs when the tax expires.
3. Current jail and juvenile detention *operating costs should be held to a minimum, and not exceed the required Maintenance of Effort* allocation to the Jail Tax Fund from the General Fund.
4. *New facility operating costs should be funded as much as possible by General Fund allocations above and beyond the required Maintenance of Effort.*
5. *All other operating expenditures, including alternative jail population reduction programs should be considered for funding within remaining General Fund resources.* These issues should be given priority through the budget process.
6. *Lobby to eliminate mandated expenditures.* Relief from mandated expenditures such as Pre-AHCCCS liability and AHCCCS and ALTCS contributions would allow the County to more easily absorb expected operating costs.
7. *If all else fails, pursue action by the Legislature for new or expanded operating revenues.* Revenue enhancements could include new or increased state shared revenues or authorization for County taxes.